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DENISON MINES LIMITED

Annual Report for the year ended December 31, 1972

Denison Mines Limited
Annual Report 1972

Contents

1972 HIGHLIGHTS

- Major sale of uranium to Spanish power companies.
- Oil & Gas Division again sets production and income records.
- Substantially higher earnings from investments.
- Significant improvements achieved in earnings from cement and lime operations.
- Proposed amalgamation with Stanrock Uranium Mines Limited.

Signing of Spanish uranium contracts in Madrid.

In 1972 your Company negotiated the sale of more than 9,000,000 pounds of uranium concentrates to supply seven nuclear power stations in Spain. Most of these concentrates, to be used in Spain's rapidly growing nuclear industry, will be supplied from the stockpile jointly owned by Denison and Uranium Canada, Limited. The remainder will be taken from the Canadian Government stockpiles.

The uranium contracts were signed in Madrid on November 29 by representatives of nine Spanish power companies, Uranium Canada, Limited and Denison Mines Limited. Mr. Stephen B. Roman and Mr. John Kostuik were the signators for Denison and Mr. Jack Austin for Uranium Canada and the Canadian Government. The Junta de Energía Nuclear which co-ordinated the negotiations was represented by Mr. José M. Otero Navascués, Presidente and Dr. F. Pascual Martínez, Secretario General Técnico.

The Spanish power companies are Centrales Nucleares del Norte, S.A., Compañía Sevillana de Electricidad, S.A., Empresa Nacional Hidroeléctrica del Ribagorzana, S.A., Fuerzas Eléctricas de Cataluña, S.A., Fuerzas Hidroeléctricas del Segre, S.A., Hidroeléctrica de Cataluña, S.A., Hidroeléctrica Española, S.A., Iberduero, S.A. and Unión Eléctrica, S.A.

Denison Mines Limited
Annual Report for the year ended December 31, 1972

Officers

Stephen B. Roman,
K.C.S.G., LL.D.,
Chairman of the Board

John Kostuik, B.Sc., P.Eng.,
President

E. B. McConkey, C.A.,
Vice-President, Finance and Treasurer

M. J. de Bastiani, P.Eng.,
Vice-President, Uranium Operations

Walter J. Riva, B.Sc., P.Eng.,
Vice-President, Coal Operations

John C. Puhky,
Secretary

Directors

Donald S. Anderson

Charles F. W. Burns

M. J. de Bastiani, P.Eng.

Hon. George A. Drew,*
P.C., C.C., C.D., Q.C., LL.D.
**Deceased — January 4, 1973.*

F. H. Jowsey

John Kostuik, B.Sc., P.Eng.

E. B. McConkey, C.A.

Hon. A. Hamilton McDonald

Edward A. Merkle

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Auditors
Eddis & Associates,
Toronto, Ontario.

Bankers
The Royal Bank of Canada,
Toronto, Ontario.

Registrar and Transfer Agent
Guaranty Trust Company
of Canada,
Toronto, Ontario,
Montreal, Quebec,
Calgary, Alberta.

Directors' Report to the Shareholders

We are pleased to report on your Company's performance in 1972. Significant events included the signing of large uranium contracts with Spanish power companies, the achievement of record levels of production and income from oil and gas, and a proposed amalgamation with Stanrock Uranium Mines Limited.

Net income from operations before taxes was $13,327,000, an increase of $1,749,000 over the previous year due primarily to the continued strong earnings performance from uranium operations and the record profit levels from oil and gas. Earnings from investments were also substantially higher and significant improvements were achieved in earnings from our cement and lime operations.

Consolidated net income after taxes was $8,115,000 or $1.81 per share as compared with $7,440,000 or $1.66 per share in 1971 on a restated basis. Dividend payments in 1972 were $1.40 per share for a total of $6,264,584. Payments of $76,270,248 or $17.05 per share have been made to shareholders since the first dividend was declared in October 1959.

The operations at Elliot Lake had a successful year in terms of both production and efficiency. More than 3,914,000 pounds of uranium oxide were produced for deliveries to Japanese power companies and the joint Denison-Government stockpile. Through our continuing program of modernization we expect to achieve long term productivity improvements which should enhance the profits we anticipate from sales. At the same time, plans have been formulated to expand production capacity to ensure our capability to supply our present contracts and to take advantage of improving markets.

In November 1972, in association with Uranium Canada, Limited and the Government of Canada, we signed uranium oxide sales agreements with a group of Spanish power companies for over 9,000,000 pounds of uranium oxide to be delivered by 1977. Accordingly, the 6,400,000 pounds of uranium oxide slated for the joint-venture stockpile with the Canadian Government have been sold by Denison before most of the material has been produced. The balance will be supplied from Government stockpiles. Earlier uranium deliveries were made to Spain in 1972 under separate contracts.

The Company has contracts with eight Japanese power companies to supply them with a total of 47,500,000 pounds of uranium oxide during the period 1973 to 1983.

For the third consecutive year income and production from the Oil and Gas Division have achieved record levels. The income from this division now accounts for 27% of the pre-tax profit of our Company. We are participating aggressively in drilling programs in Western Canada and have acquired an interest in a production license in the North Sea. We expect also to participate in the drilling of three very attractive oil prospects in Texas and one in Louisiana. In addition, application has been made to Spain for offshore permits. We are hopeful that the division will set performance records again in 1973.

Lake Ontario Cement Limited has maintained the record level of sales achieved in 1971 and has improved net earnings by over 11%, excluding extraordinary gains. The sales outlook in 1973 is promising and expansion plans for the Picton plant are currently under way.

Orderly detailed exploration and evaluation of our coal properties in British Columbia and Alberta continued in 1972. Results of the joint-venture program in the Babcock area of the Quintette property were positive with proven reserves of 280 million tons of coal in place. The Babcock section of the Quintette deposit contains about 10% of the total reserves and is suitable for underground continuous mining. Negotiations are also in progress concerning the possible development of our thermal coal reserves at the Coalspur property in Alberta. The current over-supply situation in coking coal markets appears to be diminishing and the development of our properties will be timed to coincide with improvement in the markets.

Exploration activity for other minerals continued at a somewhat reduced scale in 1972 while we carried out a critical assessment of our continuing projects. At the same time we reviewed the potential of various mining areas in Canada, the United States, Australia, Ireland, Mexico, Costa Rica, Brazil, the Philippines, Liberia, Italy and Spain.

The concessions held by Midepsa Industries Limited in the Sechura Desert of Peru were declared to have lapsed on October 10, 1971 as a result of a resolution issued in 1972 by the Peruvian Ministry of Mines. As a result of the expropriation without compensation Midepsa has filed a claim for the loss of the concessions and your Company has written down its investment in Midepsa to market value.

Several companies in our investment portfolio showed encouraging progress in 1972. In Maine, production was started at the zinc-copper mine in which Black Hawk Mining has a 40% interest and

concentrate smelting contracts have been arranged. Pacific Tin Consolidated Corporation achieved substantially higher earnings from tin, feldspar and aplite operations. Standard Trust Company, which commenced active operations in 1969, continued its record of outstanding growth and profitability in 1972.

Your Company and Stanrock Uranium Mines Limited have entered into agreements providing for the amalgamation of the two companies. The amalgamation will bring presently unused production assets into our Company and will increase our long term production capability. The basis of amalgamation is to be seventy shares of Stanrock for one share of Denison. Approval of the amalgamation by the shareholders of both companies will be sought at meetings to be held in February, 1973.

Throughout the world many electrical utilities now are firmly committed to nuclear power. The acceleration in orders for new nuclear plant capacity is particularly evident in the United States where orders in 1972 set a new record. During 1972 35 units for 38,000 megawatts of capacity were ordered in the United States as compared with 25 units and 25,328 megawatts recorded in 1971.

Your Company continues to be concerned over governmental restrictions and reduced tax incentives which have caused a severe curtailment of uranium exploration in this country. As Canadians, we should promote development of our natural resources. Resource industries provide a very necessary base for the healthy growth of other industrial sectors and limiting growth of the mining industry could seriously undermine our country's long term economic stability.

It is with deep sorrow that we record the untimely death during the year of two of our esteemed associates, Mr. Louis R. Perini and the Hon. Harry A. Willis. In their passing we have lost two directors who, over a period of many years, have freely contributed of their wide experience and knowledge in helping to direct and promote the growth of the Company.

We were saddened also by the passing a few days ago of a director and dear friend, the Hon. George A. Drew. Mr. Drew served with great distinction as Premier of Ontario, National Leader of the Progressive Conservative Party, and Canadian High Commissioner to the United Kingdom. We shall sincerely miss him for his friendship, wise counsel, and unselfish dedication to Canada.

The Board of Directors wishes to acknowledge with thanks the contribution made by our employees to the successful operation of our Company in 1972. We also extend our sincere appreciation to all shareholders for their support and encouragement.

Stephen B. Roman,
Chairman and Chief Executive Officer.

John Kostuik,
President and Chief Operating Officer.

Toronto, Ontario
January 12, 1973

Charles D. Parmelee, Executive Assistant to the Chairman — John Kostuik, President — Stephen B. Roman, Chairman

MINING

Productivity improvements highlighted the sixteenth year of continuous operation at the Denison Mine at Elliot Lake. In addition, the 1972 safety record was the best in history and labour turnover was at an all-time low. Since commencement of operations in 1957 more than 63,214,000 pounds of uranium oxide have been produced from your Company's mine at Elliot Lake. In 1972, production of uranium oxide was 3,914,220 pounds, slightly less than the previous year. The ore broken in the mine totalled 1,436,476 tons compared to 1,379,315 tons in the previous year and the milling rate was 4,300 tons per day, an increase of 4.2%. Uranium oxide was also recovered from the continuing leaching program in mined-out areas.

■ Mine and Mill Improvements

Efforts to improve production capabilities and the working environment in our underground operations continued to be emphasized. Productivity in terms of units of production per mining manshift increased by 8%. Special emphasis was placed on combining proven work methods with new technology to reduce the hazards associated with underground mining.

As part of the continuing program of mechanization of mining methods a special drill rig was developed to install roof support. It is expected that the new rig will reduce the hazards and much of the physical effort presently associated with this work.

Loading of explosives and material handling have been improved by the introduction of a vehicle equipped with an extendible platform capable of reaching the top of the face to be blasted and a large hopper for blasting agents.

The metallurgical staff continued studies for circuit improvements and cost reductions. A pilot plant for the investigation of the use of special additives as an aid to leaching was assembled. Results have been encouraging and work is continuing with emphasis on corrosion control.

Early in 1972 a plant test indicated significant savings in the cost of acid and lime could be achieved by using higher densities in the leaching circuit, under the right conditions. Plans are now under way to take advantage of this development. The long range program of reconditioning and modernizing the crushing, grinding and hydro-metallurgical plant continued and several major projects were completed during the annual vacation shutdown.

The yttrium circuit was modified during the year and production will resume in early 1973 to supply anticipated market demands. With this production capability your Company will continue to be one of the leading suppliers of this element. Your Company also has an excellent potential for producing a wide range of other rare earth oxides as markets for them develop.

■ Production Planning

A long term production plan was formulated to the year 1990 based on available reserves and market projections. Included are the major requirements for underground production, milling capacity and environmental control, both underground and on surface. This study determined that increased milling capacity and underground ventilation air will be required by 1975.

Metallurgical engineering has been completed for the first phase of the mill expansion to a capacity of 7,100 tons per day. Detailed design has begun and construction is scheduled to start in late 1973. Engineering design has been completed and a contract is being awarded for the excavation of a 25-foot diameter fresh-air intake opening which will be raised from the mine into an island in Quirke Lake, a vertical distance of 1760 feet. Excavation is scheduled to begin early in 1973.

■ Environmental Protection

Your Company continues to place emphasis on environmental control and research activities. Our operation meets all provincial government requirements and further improvements are anticipated as a result of co-operative effort within the industry at Elliot Lake and with governmental agencies.

■ Safety and Labour Relations

Our overall emphasis on safety has kept the Denison operation among the safest in the province, while our safety record continues to improve. The injury frequency in 1972 was at its lowest level since operations started seventeen years ago.

The relationship between your Company and the various unions representing our employees continued to be good; relatively few grievances went to arbitration and the monthly labour turnover was further reduced.

The Company continued its practice of encouraging young people, particularly those in mining disciplines, to further their education. Students were hired for summer work and scholarships were awarded to outstanding Elliot Lake Secondary School graduates.

Uranium ore from the Denison mine

Crude oil from Pembina wells in Alberta

OIL AND GAS

	1972	1971	% Change
Income	$ 4,233,000	$ 3,369,000	+26%
Crude Oil (barrels)			
Gross Production	1,919,000	1,572,000	+22%
Gross Reserves	40,666,000	40,213,000	+ 1%
Natural Gas (million cu. ft.)			
Gross Sales	1,773	1,118	+59%
Reserves	44,294	32,030	+38%

For the third consecutive year, the Oil and Gas Division set records in production and revenue.

During the year exploration was carried out in Alberta, British Columbia and, for the first time, in foreign areas. Reserves increased during 1972 as a result of successful drilling and recovery programs.

Alberta

■ At Swan Hills, north of Edmonton, two oil wells were drilled successfully and an additional lease purchased.

■ Two gas wells were successfully drilled in the Cessford area east of Calgary. The Company is currently considering an offer to purchase its gas at Cessford for 38¢ per thousand cubic feet, a price which is over double the current average gas selling price in Alberta.

■ Since 1971 an acreage acquisition program has been carried out at Edson. In January, 1972, a drilling program was commenced and the initial well was an oil discovery. Three additional oil wells were drilled successfully and drilling is continuing in the area.

■ The Company acquired another producing interest in the Marten Hills area north of Edmonton and effectively doubled its former interest in that field.

■ To increase the reserves and the productivity of the oil wells in the Boundary Lake area, the Company entered into a unit agreement with other area producers and a waterflood was commenced. A similar unit agreement covering gas properties in the Gilby area also was executed.

British Columbia

■ At Scatter River two leases were acquired in which the Company holds a 25% interest. A seismic survey indicates a very promising structure and drilling is planned for 1973.

■ In conjunction with partners, the Company has acquired a 24,184 acre permit at Tees and a seismic program is currently being conducted.

Foreign Areas

■ In the North Sea, (U.K. Sector), Denison has a 10% interest in a 54,000 acre production license, known as Block 3/7, which has been awarded to a group of companies. The results of the seismic program carried out by the Group are most encouraging and further exploration is planned. The Block is located 25 miles south of the large Brent and Cormorant oil discoveries.

■ With a partner, application has been made for a number of offshore Spanish permits in the Mediterranean Sea.

■ The Company is currently negotiating with U.S. oil concerns to acquire a major interest in the drilling of three oil prospects in Texas and one in Louisiana.

■ The Company is also a member of a five company group that is planning to apply for permits in the Norwegian Sector of the North Sea.

Reserves

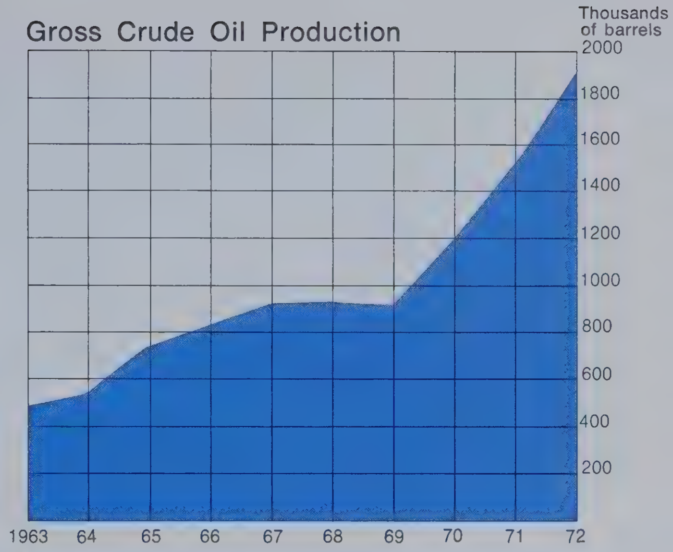
The Canadian drilling program resulted in 2.5 net oil wells and 1 net gas well. Denison now has interests in seventeen producing oil units, two producing gas units and four producing oil leases. Gross proven marketable gas reserves increased 38% during the year from drilling and the commencement of additional gas conservation schemes. Under these schemes natural gas that is produced with crude oil is gathered, treated and sold.

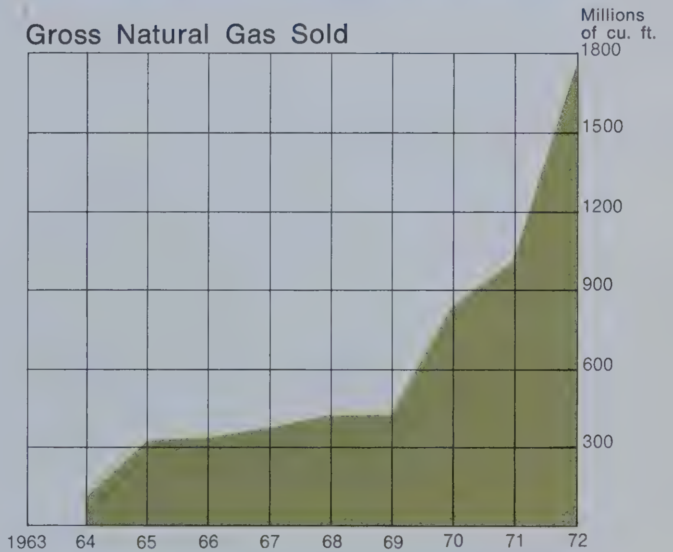
As a result of the oil discovery at Edson and the improved performance of several crude oil recovery schemes, gross crude oil reserves increased almost 2.4 million barrels during the year. This increase was offset by the year's production but at year end crude oil reserves were 1% higher than 1971. Most of the Company's crude oil reserves are in the Swan Hills-Judy Creek area where the oil is of very high quality and the current well head price averages $3.17 per barrel.

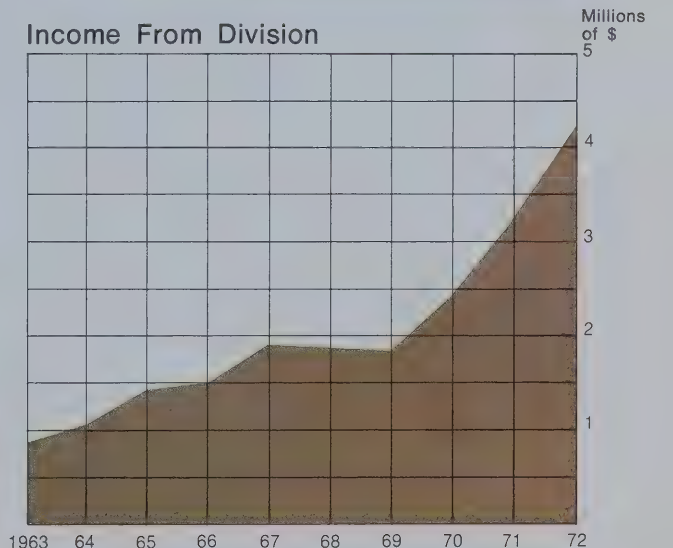
Outlook

The Alberta Government, through its Alberta Resource Revenue Plan, has announced that it will be imposing an additional $70 million charge next year against crude oil through a reserves tax or increased royalties on Crown lands. The increased tax burden on producers should be fully covered by higher revenues if, in addition to the 10¢ per barrel increase in late 1972, the price of crude oil increases as expected in 1973.

The outlook for 1973 is most promising. With the price increases and the higher demand forecast for Alberta oil and gas, income from the division again should set records in 1973.







Coal from the Babcock area, Quintette property in B.C.

COAL

Since 1969 your Company has been actively involved in an acquisition and exploration program in the coal belt straddling the British Columbia and Alberta border. Denison currently controls approximately 380 square miles of coal rights in locations considered favourable for coking coal and thermal coal deposits. The Quintette, Saxon and Belcourt properties are in British Columbia, northeast of Prince George. The Coalspur and Rock Lake coal properties are in Alberta, west of Edmonton.
In 1972 field work in the Coal Division was concentrated on the Quintette property. Preliminary reports covering the exploration carried out on other properties in the previous year were completed and appraised. On the basis of these reports the potential for future development of the coking coal and thermal coal properties is very promising.

Coking Coal Properties

■ **Quintette:** The Quintette property is jointly owned with Alco Standard Corporation through its coal operating entity, Barnes and Tucker Company. Quintette covers 226 square miles and reserves of coking coal in place have been estimated at 2.8 billion tons. The 1972 exploration program determined that the Babcock area of Quintette contains about 280 million tons of very high quality coking coal in place. The geological structure of the deposit at Babcock is flat lying and is suitable for conventional continuous mining. Work in the Wolverine area of Quintette has outlined probable reserves of 100 million tons of coal in place but further exploration is needed for complete definition of the coal deposit.

A mining plan has been prepared for Babcock which proposes an operating level of 2 million tons of clean coal per year for the property. While mining conditions are generally considered to be good, the report recommends some further mining tests prior to a major commitment. However, before any further expenditures are made at Babcock, the Company is planning to hold negotiations with major potential customers. This survey of potential markets is expected to be carried out in 1973 and upon its completion a comprehensive assessment of the profitability of the operation will be possible.

■ **Saxon:** The completed report on work to date on the Saxon property confirms the existence of 250 million tons of coal in place primarily suitable for underground mining.

■ **Belcourt:** No work was done on Belcourt in 1972 and none is scheduled in 1973 in order to give priority to other projects.

■ **Rock Lake:** The Rock Lake exploration program has been delayed awaiting clarification of the Alberta Government's policy concerning mine development in Wilderness areas. We are hopeful for a solution to the problem which will permit the program to proceed in 1973.

Analysis of the work done to date at Rock Lake is very encouraging. This property has an excellent location and ranks high on the list of priorities for development.

Thermal Coal Properties

■ **Coalspur:** Evaluation of the mapping and drilling carried out in 1971 gives possible recoverable reserves of 100 million tons of coal accessible to surface mining and 400 million tons of recoverable underground coal, both with excellent analyses for thermal power generation and coal gasification. Negotiations currently are under way to develop this property as a source of supply for a coal gasification project. Some additional exploration will be carried out in 1973.

■ **Kakwa:** Assessment of the results of last year's program at Kakwa led to the decision that mining and geological characteristics of this property were unlikely to allow the development of a profitable operation; as a result, these licences have been dropped.

Markets

Coking coal markets suffered from an over-supply in the last half of 1971 and the first half of 1972 on a world wide basis owing to a recession in Japanese and European economies. Appreciable improvement has occurred in the last half of 1972, a trend which is expected to continue. Competition for coal markets will continue to be keen, particularly for the next year. Nevertheless, the inevitable growth in world energy consumption provides assurance that markets for your Company's extensive reserves of both coking and thermal coals will exist by the time production can be realized.

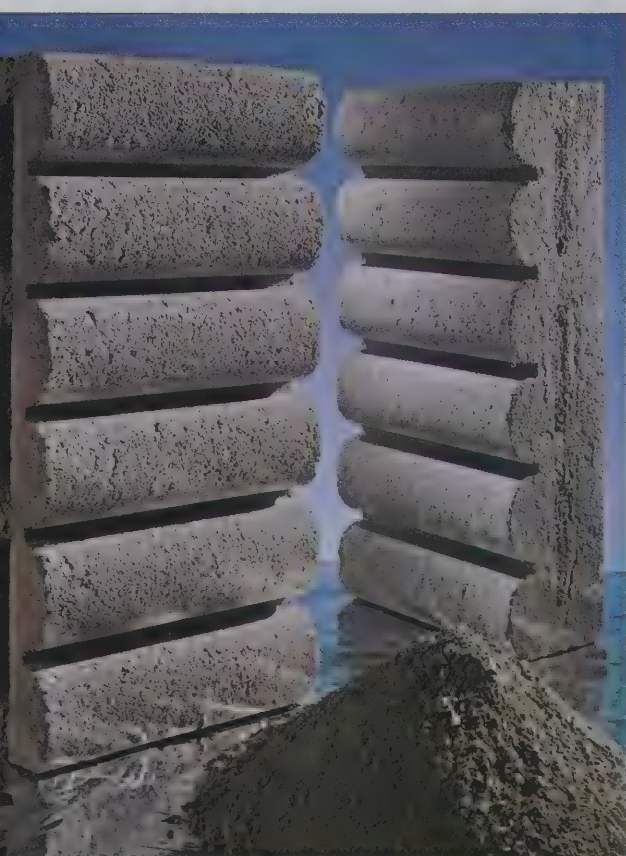
INDUSTRIAL

Lake Ontario Cement Limited

	1972	1971 (restated)	% Change
Sales	**$27,338,000**	$26,443,000	+ 3%
Net Earnings	**$ 1,690,275**	$ 1,379,383	+23%

Lake Ontario Cement Limited is a 54% Denison-owned subsidiary engaged in the production and sale of portland cement and concrete products in Ontario and northern New York State.

In 1972, Lake Ontario Cement Limited maintained last year's record performance in sales with cement and concrete products shipments reaching approximately the same levels as those achieved in 1971. Net earnings increased by $310,892 including an extraordinary gain of $153,000.



Contemporary design in cement products

The financial strength of the company continued to improve with the working capital position reaching $6,568,000, an increase of almost $1,000,000 from the 1971 level.

During 1972, the company signed two-year labour agreements with both major unions representing hourly employees.

Cement Division

Net revenues from the Cement Division were increased as a result of improved productivity at the Picton cement plant and higher selling prices for cement. Cement prices in Canada rose by 8% but only a moderate price increase took place in the New York State market because of the price and wage controls instituted by the U.S. government.

Production at the Picton cement plant was higher as the result of the installation of new grinding facilities in the fall of 1971. This additional equipment increased the output sufficiently to allow the company to ship quantities of clinker to the export market for the first time.

Installation was completed of the necessary air management control equipment ensuring that the Picton cement plant meets the Ontario Provincial Government requirements. Approximately $500,000 was spent in 1972 for this purpose and brings to $1,500,000 the total spent on pollution control at the cement plant in Picton.

Concrete Products Division

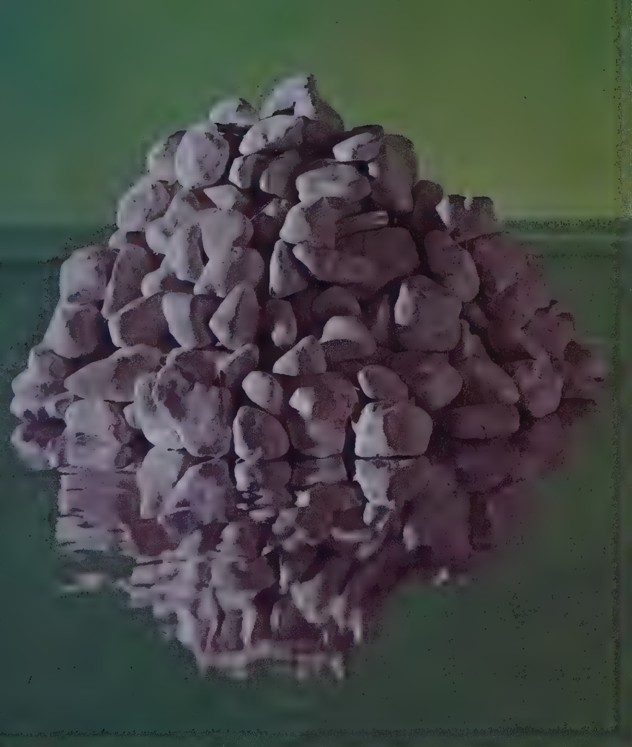
Performance in the Concrete Products Division in 1972 was less satisfactory than the previous year primarily because of reduced sales from ready-mix operations. Considerable attention is being given to improving the profitability of this division and the company has embarked on an extensive modernization program of both the ready-mix truck fleet and the plants. As part of this program, a new ready-mix operation was established in the Ottawa area, a market which the company considers one of the most rapidly growing in Ontario.

Primeau Argo Block

Primeau Argo Block, an associated company, is involved in the production and sale of concrete block in the Metropolitan Toronto region. Sales improved in 1972 and operating income after taxes was $268,000 compared to $245,000 in the previous year. Net income in 1972 was $574,000 including $306,000 extraordinary gain from the sale of land.

Outlook

Sales of cement and concrete products are expected to be moderately higher in 1973 even



Quicklime

though the outlook for the year is somewhat clouded because of the number of major labour agreements in the construction industry which expire in 1973.

The company's broad geographical distribution in terms of cement marketing will help to minimize the possible adverse impact of labour unrest in any one area. In addition, the present tight supply of cement in certain U.S. market areas gives the company significant additional export opportunities. The company is optimistic about the long-term growth of the cement industry and is actively formulating plans to expand the Picton cement plant to meet future demands.

Reiss Lime Company of Canada, Limited

Reiss Lime, at its plant near Spragge, Ontario, produces quicklime for the market area between Sudbury and Sault Ste. Marie. The company is jointly owned by Denison and The C. Reiss Coal Company of Wisconsin. In its second full year of operation Reiss Lime maintained its share of the market and the plant operated at full capacity. Net profit in 1972 showed a 15% increase over the previous year. The outlook for 1973 is very good and the company now is considering additions to its distribution facilities for quicklime and for manufacturing other products for its market area.

EXPLORATION

Your Company continued its active search for mineral deposits in 1972. Work progressed on the most promising projects from the previous year and included drilling on properties in Ontario, Nova Scotia, Quebec, the United States and Australia. Our exploration staffs located in Toronto, Vancouver and Denver carried out field examinations of mineral prospects and, in addition, researched the discovery potential of major mineral areas in Canada, the United States and Australia.

Canada

■ Diamond drilling was undertaken on optioned properties in the Sturgeon Lake area of Ontario as part of a program to test out geophysical anomalies. Drilling to date has intersected sulphide mineralization containing non-commercial metallic values. The remaining anomalies are being considered for drilling during 1973.

■ In Nova Scotia drilling continued on the twenty-one square mile property acquired near Stewiacke in 1971 to cover a zinc prospect. Three holes were drilled late in 1971 and drilling was resumed in 1972 under an agreement with Calvert Gas & Oils Limited. Results were not sufficiently promising to warrant further work on the property.

■ Several groups of claims were staked in British Columbia during the past year. The most promising of these consists of eighty claims in the Toodoggone River area, adjacent to a recently discovered gold/silver showing. Mapping and prospecting of these claims will be continued in 1973.

■ Three groups of forty claims each were staked in the McConnell Creek area of north central British Columbia following the release of government aeromagnetic maps. In the past this area contained gold placer operations and a number of base metal showings have been reported. In 1973 field investigation of anomalies will be carried out.

■ Further work was carried out on the fluorite property of Consolidated Rexspar Minerals & Chemicals Limited near Birch Island, British Columbia. The search for additional fluorite reserves was continued by means of geochemical soil sampling, adit sampling and diamond drilling. The geochemical

(Exploration cont'd)

results were positive and further testing is being considered. A major Japanese trading company is currently considering participation in the project and at its request a bulk sample has been sent to Japan for metallurgical testing.

■ Among the projects which were reviewed and which received final investigation before abandonment were the SAM Project in Northern Manitoba and Saskatchewan; the Montgomery Project in the Henik Lake area, Northwest Territories; and the Alta Copper and Metals Corporation option on the Eastmain River in Quebec. Further work on a group of claims near Donovan Lake, Northwest Territories, failed to confirm the presence of substantial uranium mineralization and the option was subsequently dropped.

United States

■ Exploration for uranium deposits in the Powder River Basin of Wyoming continued during 1972 under a joint venture with Agip Nucleare S.p.A. of Italy, formerly known as SOMIREN. Last year uranium mineralization was encountered in widely spaced drill holes in the southeastern part of the Basin. This mineralization has since been proved to be insufficiently continuous to justify further work in that region. However, your Company is continuing its program of property acquisition and exploration in the Powder River Basin because of the generally favourable geological environment.

Australia

■ As reported earlier, your Company, together with Canadian Johns-Manville Limited, Pato Consolidated Gold Dredging Limited and Mitsui & Co., Ltd. is conducting a major uranium exploration program in Australia. An extensive survey of the uranium discovery potential of Australia is being undertaken to delineate regions of particular interest.

■ Sixty 300-acre claims were staked in 1972 in the Meentheena Basin of Western Australia. Drilling confirmed the presence of radioactive conglomerates but the intersections were below ore grade. Results were sufficiently encouraging to warrant continuing geological investigation in this area.

Ireland

■ Denison and associated company, Argosy Mining Corporation Limited, hold several base metal properties in southeastern Ireland. New arrangements have been made for exploration of these properties through an agreement with Jamex Explorations Ltd. Under this agreement, Jamex is expected to spend in excess of $200,000 on the properties in 1973 and must make a commitment of more than $400,000 to continue its interest into 1974.

Drill core and mineral specimens

Other Foreign

■ Your Company considered submissions on mineral prospects and proposed exploration projects from Mexico, Costa Rica, Brazil, the Philippines, Liberia, and Australia. In addition, an examination was made of fluorite deposits in Italy and uranium deposits in Spain.

INVESTMENTS

In 1972 the Company continued its active search for sound investment opportunities with good growth potential. Special emphasis was placed on prospects in the natural resources field and other investment opportunities also were investigated.

■ Excellent progress was made during 1972 on the development of the zinc-copper mine in which Black Hawk Mining Ltd. is a joint owner with Kerramerican, Inc. The mine, near Blue Hill, Maine, commenced production in October, 1972 and is expected to attain a milling rate of 1,000 tons per day early in 1973. Kerramerican, Inc., a subsidiary of Kerr Addison Mines Limited, has earned a 60% interest in the Blue Hill properties by establishing and financing full mining and processing facilities and Black Hawk retains a 40% interest. Copper and zinc concentrate sales contracts have been arranged and concentrate shipments have begun. An active program of surface and underground exploration is being undertaken to increase ore reserves. The outlook for profitable production and increased reserves is considered to be excellent.

■ Operating results of Mogul of Ireland Limited, a 75% owned subsidiary of International Mogul Mines Limited, showed a marked improvement in 1972 in spite of a plant fire and labour unrest early in the year. During the year Mogul of Ireland redeemed the balance of its long term debt. Consolidated net income of International Mogul was significantly improved in the first nine months of 1972 over the same period in 1971. International Mogul increased its investment in Pine Vale Mines Limited and as a result the latter company and its partly owned subsidiary will be able to enlarge their mineral and oil and gas exploration activities in Australia.

■ Operating revenue of Pacific Tin Consolidated Corporation advanced by 13% in the first nine months of 1972 over the same period in 1971 as a result of improved tin prices, higher tin production and markedly higher shipments of feldspar and aplite. Notwithstanding a higher effective tax rate on Malaysian profits, net income of $1,205,000 for the nine months ended September 30, 1972 exceeded by 23% the net income for the comparable period in 1971. The outlook for 1973 is favourable.

■ The outstanding growth and profitability of Standard Trust Company continued in 1972. From the commencement of active operations in mid-1969 total assets owned have grown to more than $53,000,000 including an increase of 52% in 1972. Net income in 1972 increased 38% to $300,129 compared with $217,684 in 1971, a period in which no provision was required for current income taxes. Continued growth is anticipated in 1973.

Subsidiary

Lake Ontario Cement Limited	54%
Primeau Argo Block Co. Limited	50%*
Rochester Portland Cement Corp.	100%*

*Percentage held by Lake Ontario Cement Limited

Other Investments

International Mogul Mines Limited	8.3%
Pacific Tin Consolidated Corporation	36.8%
Reiss Lime Company of Canada, Limited	49.0%
Standard Trust Company	47.5%

Exploration and Development

Argosy Mining Corporation Limited	37.0%
Black Hawk Mining Ltd.	32.5%
Consolidated Rexspar Minerals & Chemicals Limited	46.9%
Lakehead Mines Limited	29.3%
Vespar Mines Limited	38.6%

10 YEAR SUMMARY

(,000 omitted)

Production	**1972**	1971	1970	1969	1968	1967	1966	1965	1964	1963
Tons milled	**1,454**	1,387	1,178	1,237	1,316	1,220	982	889	1,275	1,587
Average grade (lbs. U_3O_8 per ton)	**2.87**	3.20	3.15	3.43	3.07	3.07	2.86	2.93	3.14	3.34
Pounds U_3O_8 produced	**3,914**	4,256	3,628	4,003	3,843	3,549	2,749	2,561	3,950	5,079
Crude oil (bbls.)	**1,919**	1,572	1,217	930	933	924	829	727	560	485
Natural gas (mmcf)	**1,773**	1,118	864	439	434	366	333	315	156	—
*Financial**										
Net income before items shown below	**$ 6,386**	$ 4,752	$ 6,199	$ 5,172	$ 3,941	$ 1,092	$ 1,961	$ 3,133	$ 2,076	$ 7,560
Oil and gas income	**4,233**	3,369	2,451	1,802	1,827	1,884	1,517	1,375	1,036	864
Cement products income	**4,871**	4,564	3,080	3,735	3,627	2,845	2,808	3,151	2,732	—
Revenue from investments (including net gain on sale of securities)	**2,240**	1,155	1,298	5,054	8,112	5,275	2,855	4,555	1,650	1,212
Share of income determined by the equity method	**378**	162	(295)	(91)	250	(10)	77	45	(109)	(2)
Provision for depreciation, depletion and amortization	**4,004**	3,799	3,535	3,081	2,952	2,405	1,823	1,602	1,538	577
Income taxes — current	**4,900**	1,086	—	—	—	1,185	—	—	—	177
— deferred	**312**	1,052	555	805	845	—	—	—	—	—
Minority interest in consolidated net income of Lake Ontario Cement Limited	**777**	625	257	517	458	535	710	1,040	801	—
Net income for the year	**8,115**	7,440	8,386	11,269	13,502	6,961	6,685	9,617	5,046	8,880
Net income per share	**1.81**	1.66	1.87	2.52	3.02	1.56	1.49	2.15	1.13	1.98
Dividend paid per share	**1.40**	1.40	1.40	1.40	1.40	1.40	1.40	1.25	1.00	1.00
Number of shares outstanding	**4,475**	4,475	4,475	4,475	4,475	4,475	4,475	4,475	4,475	4,475
Equity per share	**13.71**	13.30	13.03	16.06	14.94	13.32	13.16	13.07	12.17	12.07

*After reflecting prior period adjustments in the years to which they apply.

Notes to Consolidated Financial Statements DECEMBER 31, 1972

1. **Basis of Statement Presentation**
The Company and its subsidiaries retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants issued late in 1972 in respect of accounting for long-term intercorporate investments including the calculation of income therefrom by the equity method. The effect of this change in accounting method has been to increase consolidated net income by $446,127 in 1972 and $230,367 in 1971.
As a result of adoption of the above recommendations the consolidated financial statements include the accounts of all subsidiary companies and the comparative figures for 1971 have been restated to include the accounts of Lake Ontario Cement Limited (54% owned) and its subsidiaries. In 1971 the investment in shares of Lake Ontario Cement Limited was stated in the consolidated balance sheet at cost plus the Company's share of consolidated earnings of such subsidiary since control was acquired which share insofar as it related to 1971 was included in the consolidated statement of income.
The carried value (Note 2) of investment in companies accounted for under the equity method approximates the Company's proportionate share of the underlying net assets of such companies except in the case of mining companies in the exploration or initial production stages. The cost to the Company of investment in these latter companies exceeded its proportionate share of their underlying net assets (after eliminating deferred exploration costs as assets) at dates of acquisition by $1,078,434. Such excess represents the value attributable to mining properties held by these companies. The carried value of these investments is adjusted to reflect the Company's participation in income or losses of these companies and may be reduced in the future if the value of any of the mining properties is established to be less than carried value.
Exploration costs which are deferred in the accounts of these mining companies have been treated as a current expense by the Company in determining its income under the equity method from these mining companies. Development costs incurred subsequent to the decision to bring one of these mining companies into production have been deferred and therefore such costs will be included in the determination of income when they are written off against production revenue.
2. **Long-term Intercorporate Investments**
(a) This item comprises:

	1972	1971
Investment in companies accounted for by the equity method		
Shares — Note 2(b)	$ 4,713,996	$ 4,037,869
Debentures — Note 2(e)	2,666,625	2,666,625
Loans	809,937	1,277,364
	8,190,558	7,981,858
Portfolio investments, at or below cost		
Shares — Note 2(c)	16,640,727	17,147,804
Debentures	—	1,573,808
Secured loans	231,473	856,542
	16,872,200	19,578,154
	$25,062,758	$27,560,012

(b) The investment in shares of companies accounted for by the equity method is carried at cost adjusted by the Company's share of their earnings or losses since effective control was acquired. Included in this category are shares carried at $1,730,531 with a quoted market value of $2,049,784 (1971 $1,713,087 and $1,577,032 respectively).
(c) Portfolio investments include shares carried at $16,142,181 with a quoted market value of $14,066,670 (1971 $16,649,257 and $10,780,733 respectively).
(d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.
(e) Debentures consist of 6½% Series A Black Hawk Mining Ltd. debentures (face value $2,735,000) due June 30, 1974. Black Hawk Mining Ltd. and its wholly-owned subsidiary have assigned to the Company (as security for the above principal plus interest from January 1, 1967 which has not been recorded in the accounts of the Company) all net monies which may be received by them from production from certain mineral properties in Maine which were brought into production late in 1972 pursuant to an agreement with a subsidiary of Kerr Addison Mines Limited.
(f) Gains of $320,742 (1971 $27,676 loss) on realization of portfolio investments are included in revenue from investments — net gain on security transactions.
3. **Depreciation, Depletion and Amortization**
Plant and equipment of the companies are being depreciated over their estimated useful lives. Development expenditures for the purpose of preparing mining areas beyond current requirements have been deferred and are being written off in an appropriate manner as such areas of the mine are brought into production.
Petroleum and natural gas lease acquisition costs and development expenditures are amortized on the unit of production method based on estimated reserves. The excess cost of the Company's investment in Lake Ontario Cement Limited over its proportionate share of the net book value of assets of that company at the time of acquisition was $1,157,283, which amount is being amortized over a 25 year period.
4. **Income Taxes**
(a) The Company has received federal and provincial income tax re-assessments for the years 1961 to 1967 and federal and provincial income tax re-assessments to 1968 for certain wholly-owned subsidiary companies. Certain assets of the Company and of a wholly-owned subsidiary have been assigned to the tax authorities as security for these re-assessments pending settlement.
In 1972 the Federal Court of Canada dismissed an appeal by the Company from a decision of the Trial Division of the Federal Court which dismissed an appeal by the Company against the 1961 federal re-assessment, the principal issue of which was the disallowance of deduction by the Company of capital cost allowance claimed in respect of the cost of construction of main haulageways and similar underground works capitalized by the Company for tax purposes only. The Company is appealing this decision to the Supreme Court of Canada. Indicated tax liabilities in the amount of $7,129,000 plus interest to date of $4,169,000 have been reflected in the accounts pending final resolution of this matter which is not expected until late in 1973.
Notices of objection have been filed with respect to the other re-assessments, the issue being the inclusion in income of gains realized on the disposition of certain portfolio shares. In the opinion of special counsel the Company and its subsidiaries should be successful in contesting the re-assessments where the investment intention is demonstrable. The Company is satisfied that such intention can be shown.
Current and deferred income taxes have been calculated on the basis that these objections will be successful. If these objections are unsuccessful the additional liability for income taxes to December 31, 1972 is estimated to be $3,435,000 plus interest of $1,142,000 (to December 31, 1971 — $1,886,000 and $864,000 respectively) which amounts have not been reflected in the accounts.

(b) For income tax purposes the companies in the current and prior years have been entitled to claim capital cost allowances in respect of depreciable assets and oil and natural gas lease acquisition costs and development expenditures thereon (oil and gas intangibles) in amounts which exceed the related depreciation and depletion provisions reflected in the accounts.
The Canadian Institute of Chartered Accountants has recommended the income tax allocation basis of accounting whereby the provision for income tax is based upon income reported in the accounts. In 1972

Consolidated Balance Sheet

December 31, 1972

ASSETS	1972	1971
Current Assets		
Cash	**$ 1,402,159**	$ 1,582,261
Marketable securities — at market which is lower than cost	**7,998,266**	8,825,602
Accounts receivable	**9,582,845**	7,125,549
Cement product inventories — at cost	**2,789,903**	2,488,359
Supplies and prepaid expenses	**2,338,463**	2,336,618
	24,111,636	22,358,389
Long-term Intercorporate Investments (note 2)	**25,062,758**	27,560,012
Concentrates Held for Sale — at cost	**18,641,164**	16,293,123
Property, Plant and Equipment — at cost less accumulated depreciation and depletion of $71,498,649 (1971 $67,855,713) (note 3)	**52,692,232**	52,260,050
Excess of Cost of subsidiaries over the net book value of their assets, less amortization (note 3)	**740,673**	786,963
	$121,248,463	$119,258,537

LIABILITIES		
Current Liabilities		
Bank loan — secured	**$ 4,800,000**	$ 9,650,000
Accounts payable and accrued charges	**4,804,442**	4,637,422
Dividends payable	**347,879**	343,364
Income and mining taxes payable (note 4)	**15,734,359**	1,301,010
Current portion of long-term debt	**238,800**	201,950
Current portion of advances on concentrate sales contracts	**2,000,000**	2,000,000
	27,925,480	18,133,746
Advances on Concentrate Sales Contracts	**7,293,180**	7,416,921
Income Tax Re-assessments under Appeal (note 4)	**—**	10,837,100
Long-term Debt of Lake Ontario Cement Limited (note 6)	**11,069,644**	10,955,000
Minority Interest of Subsidiary Companies	**10,040,040**	9,158,020
Deferred Income Taxes (note 4)	**3,564,500**	3,252,900
Shareholders' Equity		
Capital stock		
Authorized 6,000,000 shares of $1 par value each		
Issued and fully paid 4,474,703 shares	**4,474,703**	4,474,703
Contributed surplus	**3,590,132**	3,590,132
Retained earnings	**53,290,784**	51,440,015
	61,355,619	59,504,850
	$121,248,463	$119,258,537

Approved on behalf of the Board,

JOHN KOSTUIK, Director

B. E. WILLOUGHBY, Director

Consolidated Statement of Income and Retained Earnings

For the year ended December 31, 1972

	1972	1971
Net income before items shown below	**$17,258,371**	$16,138,123
Revenue from investments		
Share of income determined by the equity method (note 1)	**378,173**	162,130
Dividends, interest and net gain on security transactions (note 2(f))	**2,240,291**	1,154,882
	19,876,835	17,455,135
Deduct:		
Ontario mining tax	**240,000**	235,000
Depreciation, depletion and amortization (note 3)	**4,003,924**	3,799,020
Interest on long-term debt	**1,067,531**	749,210
Interest on prior years' income taxes under appeal	**460,900**	469,050
	5,772,355	5,252,280
Income before income taxes, minority interest and extraordinary charge	**14,104,480**	12,202,855
Income taxes (note 4)		
Current	**4,900,000**	1,086,000
Deferred	**311,600**	1,051,900
	8,892,880	10,064,955
Minority interest in consolidated net income of Lake Ontario Cement Limited	**777,527**	625,098
Net income before extraordinary charge	**8,115,353**	9,439,857
Investment in Midepsa Industries Limited written down (note 10)	**—**	2,000,000
Net Income for the year	**8,115,353**	7,439,857
Restated balance of retained earnings at beginning of the year (note 10)	**51,440,015**	50,264,742
	59,555,368	57,704,599
Deduct:		
Dividends	**6,264,584**	6,264,584
Balance of retained earnings at end of the year	**$53,290,784**	$51,440,015
Income per share		
Net income before extraordinary charge	**$ 1.81**	$ 2.11
Net income	**$ 1.81**	$ 1.66

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1972

Source of Funds	1972	1971
Current operations (note 6)	**$12,895,025**	$15,149,744
Long-term intercorporate investments	**2,943,381**	—
Increase in long-term debt — Lake Ontario Cement Limited	**114,644**	10,339,628
	15,953,050	25,489,372
Application of funds		
Additions to property, plant and equipment (net)	**4,418,071**	3,730,970
Concentrates held for sale	**2,348,041**	2,605,651
Advances on concentrate sales contracts	**123,741**	125,726
Income tax re-assessments under appeal (note 4(a))	**10,837,100**	—
Dividends declared	**6,264,584**	6,264,584
Long-term intercorporate investments	**—**	4,672,559
Repayment of long-term debt — Lake Ontario Cement Limited	**—**	6,599,906
	23,991,537	23,999,396
Decrease (increase) in working capital	**$ 8,038,487**	$ (1,489,976)

the Company adopted with retroactive effect to the year 1971 the tax allocation basis of accounting on timing differences related to depreciable assets with a resulting charge to income of $311,600 in 1972 and $1,051,900 in 1971 for deferred income taxes.
The Company, in common with many other companies in the oil and gas industry, has not applied the tax allocation basis of accounting to timing differences related to oil and gas intangibles and believes that to do so would be inappropriate. If the tax allocation basis of accounting had been followed in respect of timing differences related to such intangibles the deferred income tax provision would have been increased and consolidated net income decreased by $25,000 in 1972 and $135,000 in 1971.
Unrecorded deferred income taxes of the Company for 1970 and prior years in respect of timing differences amount to $5,264,000 of which $2,124,000 relates to depreciable assets and $3,140,000 relates to oil and gas intangibles.

(c) Lake Ontario Cement Limited and its subsidiaries adopted the tax allocation method of accounting in 1968 and their total unrecorded deferred income taxes for 1967 and prior years amount to $4,122,000.

5. **Long-term Debt of Lake Ontario Cement Limited**

	1972	1971
9¾% Debenture due June 30, 1991	$10,500,000	$10,500,000
8% to 9% Mortgages due in 1977	314,644	—
8% Notes repayable annually to January 31, 1976	255,000	455,000
	$11,069,644	$10,955,000

The loan agreement providing for the issuance of the 9¾% debenture contains certain restrictions with respect to the payment of dividends by Lake Ontario Cement Limited. The aggregate maturities in each of 1974, 1975 and 1976 are $706,800, and in 1977 are $781,244.

6. **Source of Funds from Current Operations**

	1972	1971
Net income for the year	$ 8,115,353	$ 7,439,857
Add items which did not require the current use of funds:		
Depreciation, depletion and amortization	4,003,924	3,799,020
Minority interest in consolidated net income of Lake Ontario Cement Limited	777,527	625,098
Deferred income taxes	311,600	1,051,900
Loss (profit) on disposal of fixed assets	30,721	(4,814)
Dilution of investment in subsidiary company	102,027	—
Investment write down (note 10)	—	2,000,000
Interest on prior years' income taxes under appeal	—	469,050
Share of income determined by the equity method	(446,127)	(230,367)
	$12,895,025	$15,149,744

7. **Contingent Item**
The Company was awarded by the trial court damages of $1,955,364 with interest and costs in an action commenced by the Company in Illinois against Michigan Chemical Corporation for breach of a contract for the purchase by it of yttrium oxide. Michigan Chemical Corporation counterclaimed for three times alleged damages of $1,240,000 and the counterclaim was dismissed. An appeal was taken but the judgment of the trial court was affirmed on appeal except with respect to an amount yet to be determined but which is relatively small. Michigan Chemical Corporation is seeking further judicial review by the Supreme Court of the United States.

8. **Gross Operating Revenue**
Gross operating revenue of the Company for the year ended December 31, 1972 increased by 2.7% over 1971. The proportion of this percentage change attributable to the Uranium Division and to the Oil and Gas Division was a decline of 23% and an increase of 123% respectively. Consolidated sales of Lake Ontario Cement Limited were $27,337,527 in 1972 and $26,443,457 in 1971.

9. **Other Statutory Information**
Direct remuneration received by the directors and senior officers in 1972 amounted to $330,076 (1971 $385,677).

10. **Prior Period Adjustments**
As a result of the adoption in 1972 of the recommendations referred to in Notes 1 and 4(b) the opening balance of retained earnings has been adjusted to reflect (a) retroactive application of the equity method of accounting, (b) the retroactive amortization of excess costs, referred to in Note 3, from 1964, the year in which the Company acquired control of Lake Ontario Cement Limited and (c) retroactive application to 1971 of the income tax allocation basis of accounting.
In January, 1972, by a resolution of the Peruvian Ministry of Mines, the concessions held by Midepsa Industries Limited in the Sechura Desert of Peru were declared to have lapsed on October 10, 1971 and the development proposals by the company were rejected. These claims were the principal asset of Midepsa and accordingly, as of the effective date of loss of the claims in 1971, the Company has recorded as an extraordinary charge the write down of its investment in Midepsa to approximate market value.
The resulting changes in the balance of retained earnings at the beginning of the year are summarized as follows:

	1972	1971
As previously reported	$54,751,846	$50,828,133
Less adjustments to prior years' income:		
Share of income determined by the equity method	58,611	239,361
Amortization	370,320	324,030
Deferred income taxes	882,900	—
Investment write down	2,000,000	—
As restated	$51,440,015	$50,264,742

11. **Proposed Amalgamation**
The Company has entered into agreements providing for the amalgamation of the Company and Stanrock Uranium Mines Limited in accordance with the provisions of The Business Corporations Act of Ontario. The amalgamation is subject to appropriate authorization by the shareholders of both companies at meetings called to be held in February, 1973.

AUDITORS' REPORT

To the Shareholders,
Denison Mines Limited.

We have examined the consolidated balance sheet of Denison Mines Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. For Denison Mines Limited and those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For other companies, consolidated or accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of Denison Mines Limited and its subsidiaries as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the equity method of accounting and to the deferral method of income tax allocation referred to in Note 10 to the consolidated financial statements, on a basis consistent with that of the preceding year.

EDDIS & ASSOCIATES
Chartered Accountants.

Toronto, Canada.
January 12, 1973

The final product — uranium concentrates

Denison Mines Limited
4 King Street West, Toronto, Canada.

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